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THE FEDERAL DIARY

Tax Battle Heats Up

By Mike Causey
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A retroactive change in public employe pension rules, tentatively cleared by Senate-House conferees, may be reconsidered this week when Congress gets its first look at sweeping legislation to overhaul the nation's tax structure.

Many federal workers have been in shock since the retroactive pension change passed its first major hurdle. It would impose taxes on pensions immediately after retirement, eliminating the current tax-free period in which retirees are allowed to recover all previously taxed contributions. The change would hit anyone who retired after July 1.

But there is now some hope that the proposed tax change will be modified or go into effect in the future.

House Ways and Means Committee Chairman Dan Rostenkowski (D-Ill.) and Senate Finance Committee Chairman Bob Packwood (R-Ore.) are developing transitional rules that will determine the new tax policy. The final tax bill could go to Congress early next week.

Federal, postal and public employes could learn as early as Thursday about the status of the special benefit that now applies to 21 million people who contribute to their own pension plans.

Public employe groups have mounted an all-out lobbying campaign to save the recovery rule, or at least to preserve it until next January. That would permit thousands of federal workers, including many retiring members of Congress and congressional staff members, to leave under current rules.

Several congressional staff members say that Rostenkowski, the prime player in tax reform, is prepared to "revisit" the recovery rule issue.

A top aide to Rostenkowski said yesterday that he would be surprised if his boss has promised anyone anything. He said that while he and Packwood are reviewing many features of tax reform now, "I don't know how excited one could get, or should get, over that."

"I expect that Rostenkowski will talk to members Thursday and Friday and tell them who was accommodated and who wasn't," the aide said. "I imagine Steny [Rep. Steny Hoyer (D-Md.)] will be one of the first to know because he's been the most vocal Democrat on the issue."

Hoyer has asked that the effective date of the change be delayed until next year and that the major portion of pensions for the first few years of retirement be excluded from taxes.

"As far as I know, the chairman hasn't told anybody who is in and who is out of the tax bill," the aide said. "There are literally hundreds of [unsettled] issues in the transition rules. It hasn't been in our interest to tell anybody until we've told everybody."

Meanwhile, federal and postal groups plan to keep the pressure on Capitol Hill. Three major organizations—the American Foreign Service Association, the National Treasury Employees Union and the American Federation of Government Employees—will hold a news conference at noon today at AFSA headquarters to spell out what the change would cost present and future retirees.

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